



**Testimony of Laurel O'Sullivan, Vice President Public Policy, Donors Forum
To the Budgeting for Results Commission, regarding
Budgeting for Results
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Good Morning. My name is Laurel O'Sullivan. I'm the Vice President, Public Policy at the Donors Forum. Donors Forum is the state association of foundations and nonprofits in Illinois and our policy advocacy focuses on securing better public policies for a more effective and informed philanthropic and nonprofit sector.

Collectively our foundation members hold \$14 billion in assets and enriched communities with \$2 billion in grant making in 2009. The nonprofit sector in Illinois employs nearly half a million people in Illinois or 10.2% of all private sector employees; this exceeds the worldwide workforces of major corporate employers Boeing, Kraft, Abbott Labs, Sara Lee, and Motorola combined and is more than double the size of the workforces of construction, transportation, utilities, and warehousing.

We appreciate the opportunity to share this testimony on behalf of the over 4,000 foundations and 20,000 nonprofits that are the building blocks of Illinois communities, doing the work of government on behalf of many. Nonprofits have been deeply impacted by the State's ongoing budget deficit and its failure to pay for services already rendered. Nonprofits also stand to be deeply impacted by the State's newly enacted approach to budgeting, Budgeting for Results.

We are here today to reiterate our support to Illinois' leadership as it embarks on the newly enacted process of Budgeting for Results while urging caution, inclusiveness and transparency.

In 2010 our board formally endorsed the State's need for more revenue to among other things, continue to pay nonprofit service providers fairly, equitably and on time. That promise has still not been realized. According to the Urban Institute, Illinois ranks last in the nation in terms of late payment to nonprofits and third from the bottom in terms of paying full cost of serves.

Our support of more revenue was tied to an expectation that the State would create a new budgetary process informed by integrity, discipline, and accountability. There is much at stake. According to a Pew Center on the States study, "Facing Facts, Public Attitudes and Fiscal Realities in Five Stressed States," taken in October 2010, only 20% of Illinois residents trust state government to do the right thing. If done right, BFR has the potential to restore some faith in Illinois leadership and elected officials. If done poorly, it may serve to further alienate whole constituencies including nonprofits who providing critical services to the state and those they serve.

We have been observers of the process since its inception, and want to share our questions, concerns and suggestions to guide the state's very ambitious and fast paced agenda. Our questions are also informed by some preliminary and comparative research we have conducted in partnership with American University for how other states and their nonprofits have fared after adopting outcomes based budgeting:

In particular, we have concerns regarding the State's ability to:

- Create a transparent and accountable process;
- Adequately measure programs (like human services or education) that have proven difficult to measure in other states with similar performance management tools;
- Secure sufficient resources necessary to manage such processes and analyze the concomitant data; and
- Effectively engage nonprofits and foundation stakeholders in a meaningful and transparent way.

Transparency and Accountability

For this new approach to succeed, and not be viewed as Illinois politics at play, the process needs to be completely transparent and lines of accountability clearly delineated so those with a vested interest in participating and contributing to this new approach can do so. The Governor's Office has made some process improvements to conduct more outreach to the public, including this hearing and we support those efforts.

Accountability is important because a poorly designed BFR implementation focused on achieving results too quickly will only lead to failure. One of the dangers is that the process could have the unintended consequence of eliminating critical community services (already vulnerable in a 'cuts only' environment) whose outcomes are poorly created or misinterpreted. For grantmakers, there is a risk that BFR could translate into lost progress as hard fought gains in community stability (i.e., for education, poverty or mental health) gradually disappear in a process that is being driven by the Governor's Office of Management and Budget staff with input from a Commission that is challenged to keep pace with a fast moving, highly technical, information laden process.

It is not clear whether it's the legislative, executive or administrative branch is ultimately accountable for the success or failure of this process. In most other states that have enacted BFR, it has been the Executive branch driving the process. In Illinois it's less clear. Does accountability for its success or failure lie with the Governor who signed the legislation and created the Commission; with the legislature who can authorize or reject the recommendations of the Commission; or with Agency Directors who have the closest relationship with programs and their data?

It is imperative that during the fast paced and difficult process, we don't sidestep the larger and even more difficult policy discussions that need to be occurring in tandem with this process - specifically what are the tradeoffs? What programs won't we be funding in Illinois? How will Illinois communities be better or worse off as a result of decisions being made?

Another question that does not appear to have been addressed is clearly communicating the State's ultimate goal with Budgeting for Results. Managing expectations of the taxpayers of Illinois and those impacted by any revised funding decisions must be a clear priority. We know that outcome based budgeting is not a new concept and historically over the last 40 years have been pursued by states when resources are constricted. To the extent this approach provides more transparency as to how and why funding decisions are made in Illinois, it is a much needed and welcome improvement. However, based on experiences in other states, we are concerned BFR could become another invention of government which, while well intended, at best leads to no meaningful change, and at worst becomes a Trojan Horse for bad policy making.

Finally, transparency also dictates that there must be a collective and collaborative way to provide input, opinion and veracity around outcome measures, as well. If decisions regarding allocations and expenditures (and how to measure them) remain opaque and difficult to access, it will be difficult for nonprofit providers to engage collaboratively in this process – to the detriment of the program and the community it benefits.

Recommendation: If BFR is to work well in Illinois, there must be there must be a collaborative process for collecting, sharing, selecting and analyzing data for the proper establishment of goals and outcomes in order for the State to meet its own targets. In addition, it is critical to get an explicit statement about which programs will be included and which will not (as well as an idea of which priority umbrella houses each of the included programs). This will be enormously important for non-profits determining how to engage in the process.

Processes, Data & Metrics

Among states that have implemented a version of BFR, 'performance' varies from state to state, as do the processes created to measure it. There is no one standard for effective performance based budgeting. But, some common themes appear in states like Iowa, Missouri, Washington and Virginia: programs that have more abstract data sets to deal with (like human services) are harder to measure and therefore more at risk in funding allocations than those with more material outputs (like roads or public safety); departments charged with establishing metrics and outcomes still struggle, even years after the initial implementation. In addition, the processes implemented by these states are closed circuits inside individual agencies with very little data input (much less analysis) from providers or other potential collaborators. Echoing the concern of a few BFR Commissioners, Donors Forum asks how citizens and nonprofits can engage. We are pleased to see some nonprofit and philanthropic expertise was added to the Commission but believe more can be done to incorporate the expertise of nonprofit providers, particularly during the data gathering stages of outcome development and performance measurement.

Recommendation: If BFR is to work well in Illinois, the process by which data is gathered, collated and indicators and outcomes created needs to be open to subject matter experts among the nonprofit and foundation communities.

Resources

Also common among states with some version of BFR: the need for proper resource allocation. In a time of severe budget restrictions, does the state have enough resources? Iowa has dedicated 2.5 Full Time Employees for performance management, and at the agency level, the responsibility is *ad hoc*. Missouri has 2 FTEs with agency level support decreasing with each budget cut. Virginia has none and agency participation varies by agency. Only Washington has a centralized office for data collection and there is a dedicated performance officer for each agency who meet regularly to discuss targets and best practices for performance integration.

Recommendation: If BFR is to work well in Illinois, ‘doing more with less’ cannot be the guiding principle; lack of management, buy-in and staffing across and through departments will not only lead to bad resource allocation, it will lead to fundamental misreading of program goals and outcomes resulting in less needs being met. If the state doesn’t have enough resources, it should tap the expertise of the nonprofit and foundation communities.

Further Questions:

1. What coordination mechanism has been put in place to account for how different functional areas affect one another (for instance, links between education, economic development, and corrections)?
2. Will performance information be used by the Executive and Legislative branches? How systematically?

Thank you for your time.

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